

Management Controls, Systems, and Compliance With Laws and Regulations

The auditors' report on internal controls, prepared at the completion of VA's 2005 financial statement audit, includes three material weaknesses: "Information Technology (IT) Security Controls," "Integrated Financial Management System," and "Operational Oversight." In the IT material weakness, the auditors reported that VA's program and financial data continue to be at risk due to serious weaknesses related to access control, segregation of duties, service continuity, and change control. In the second material weakness, the auditors reported continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. The third material weakness, "Operational Oversight," was a repeat reportable condition in FY 2004 that was elevated to a material weakness in FY 2005. In this finding, the auditors reported instances where key internal controls were not effective, policies and procedures were not adhered to, and reconciliation processes were not performed consistently or completely.

The Department has made progress in correcting the IT Security Controls material weakness, including achieving compliance with HIPAA security rules. Resources have been maximized to improve the overall security posture, and work will continue in the next fiscal year. Also, VA has reassessed its plans to correct the Integrated Financial Management System material weakness. The Department is implementing the Hyperion Financial Management reporting system to improve the preparation, processing, and analysis of financial information. In addition, VA is implementing a data warehouse to assist in streamlining its financial reporting processes. Final resolution of this weakness is a multi-year effort. VHA took steps to address the Operational Oversight reportable condition this past year, including implementation of a monthly reconciliation monitoring process, provision of additional training, and development and tracking of key financial performance measures. The elevation of this reportable condition will prompt a more concerted effort to monitor compliance and enhance control over financial processes and procedures.

The auditors' report on compliance with laws and regulations, also prepared as a result of the 2005 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act requirements concerning Lack of Integrated Financial Management System, Information Technology (IT) Security Controls, and Operational Oversight. Except for these instances of non-compliance, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to establish management controls over their programs and financial systems. Throughout the fiscal year, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. The results of monitoring and conducting other periodic evaluations provide the basis for the Secretary's annual assessment of and report on management controls. VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the FMFIA as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The 2005 Consolidated Financial Statements Audit Report disclosed one repeat reportable condition that was elevated to a material weakness. There are no new management control material weaknesses disclosed or reported under FMFIA. At the end of 2004, two audit-related material weaknesses¹ (Information Technology Security Controls and Lack of Integrated Financial Management System) and two

management control weaknesses consisting of two non-conformances were carried forward in 2005.

Corrective actions were implemented and closure approved during 2005 for one of the FMFIA material weaknesses—PAID System – Mission Performance. The remaining four material weaknesses (three audit-related material weaknesses and one management control material weakness) are shown in the tables below, which provide the current status of the Department's material weaknesses.

Audit Material Weaknesses

Description	Current Status	Resolution Target Date
Information Technology Security Controls – VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.	Plans are being implemented to address this weakness. The Department has maximized limited resources to make significant improvement in VA's overall security posture in the near term by prioritizing Federal Information Security Management Act remediation activities.	2006
Lack of Integrated Financial Management System – Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	VA is implementing a COTS financial reporting system that will improve the efficiency of financial statement preparation. In addition, VA is developing plans to address the Department's financial and logistics deficiencies.	2010
Operational Oversight – Internal controls and reconciliation processes were not performed consistently or completely.	VHA plans to enhance monitoring controls over medical centers' financial and performance metrics reporting; educate and enforce accountability of medical centers' management; improve controls on review and approval of transactions; and establish compliance testing of VA policies and procedures.	TBD

¹ The use of the term "material weakness" should not be confused with use of the same term by government auditors to identify management control weaknesses, which, in their opinion, pose a risk or threat to the internal control systems of an audited entity, such as a program or operation. Auditors are required to identify and report those types of weaknesses at any level of operation or organization, even if management of the audited entity would not report the weaknesses outside the agency.

Management Control Weaknesses

Description	Current Status	Resolution Target Date	Section 2	Section 4
Internal Control Weaknesses in the Compensation and Pension Payment Process – Erroneous and fraudulent payments were found.	Procedures are underway to augment internal controls in the area of erroneous payments. Security features and controls have been implemented and are being further tested to ensure they are operating accurately.	December 2005	X	

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant -- with the exception of federal financial management systems requirements. VA has now initiated a 4-year remediation program to eliminate the existing material weakness--Lack of an Integrated Financial Management System. This new program will be referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)--the goal of which is to correct financial and logistics deficiencies throughout the Department. For FY 2006 and 2007, the work associated with FLITE will be primarily "functional" in nature, that is, oriented on planning and the standardization of financial and logistics processes and data. This effort will be led by the Assistant Secretary for Management and will be very labor intensive involving both contractor and Government personnel. During those fiscal years, a detailed review and analysis of software options will also occur and will include "pilot programs" as needed. The Department is also implementing the Hyperion Financial Management reporting system to improve the preparation, processing, and analysis of financial information and a data warehouse to assist in financial reporting.

In 2005 the Systems Quality Assurance Service (SQAS) within the Office of Business Oversight completed three major financial management systems reviews in accordance with the guidelines established within SQAS' newly created financial systems review program. The reviews were conducted to identify the systems' compliance with the requirements of FFMIA, as implemented by OMB Circular A-127. VA's Credit Card System and Financial Reporting System were found *Substantially Compliant*, and the review of the Corporate WINRS system identified opportunities to enhance the functionality of the system to better address requirements for internal control and financial management.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) provides the framework for securing the federal government's information technology. All agencies covered by the Paperwork Reduction Act must implement the requirements of FISMA and report annually to the Office of Management and Budget and Congress on the effectiveness of the agency's security programs. The reports must also include independent evaluations by the agency Inspector General. VA is aware of the vulnerability of its assets and financial data to error or fraud and is in the process of correcting the Information Technology Security Controls material weakness. Implementation plans are in place to address this significant deficiency, as identified in the FY 2005 Fourth Quarterly FISMA Report, dated September 15, 2005. VA met its goal to have all major systems certified and accredited by August 31, 2005.

IG Act Amendments of 1988

VA collected \$3 million in disallowed costs from VA-contracted suppliers in 2005.

The Inspector General (IG) Act requires management to complete all final actions on recommendations within 1 year of the date of the IG's final report. Departmentwide, there are 13 reports that have been pending final action

for over 1 year. Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes. Per the IG Act reporting requirements, the following table is a summary of the Office of Inspector General reports with the management dollar value of Disallowed Costs and Funds to Be Put to Better Use.

Disallowed Costs and Funds to Be Put to Better Use Reporting Period October 1, 2004—September 30, 2005 (dollars in millions)				
	Disallowed Costs		Funds to Be Put to Better Use	
	Reports	Value	Reports	Value
Balance 9/30/04	5	\$0.3	19	\$743.3
New Reports	19	\$4.2	110	\$771.3
Total	24	\$4.5	129	\$1,514.6
Completed	16	\$3.0	102	\$744.5
Balance 9/30/05	8	\$1.5	27	\$770.1

Source: *Compliance with the IG Act Amendments of 1988* section reported by Office of Inspector General, Operational Support Division.

Prompt Payment Act

VA continued to enhance its vendor payment processes throughout 2005. The Department processed over 5.5 million Prompt Payment Act-eligible invoices worth over \$8.7 billion, with over 99 percent paid on time. In 2005, interest payments VA-wide declined by \$116,000 (from \$862,000 to \$746,000) -- a 13.5 percent improvement over 2004. At the same time, discounts earned surged by \$3.4 million to \$6.2 million, a 124 percent improvement over 2004 levels. VA's percentage of discounts earned also improved from 86.1 percent in 2004 to 91.1 percent in 2005. Combined, payment processing improvements saved VA \$3.5 million in 2005, which will be used to improve veterans' care. VA also continued to gain efficiencies and better results through an initiative to centralize vendor payment activities at the Financial Services

Center (FSC) in Austin, Texas. By centralizing vendor payment activities, VA strengthened its focus on identifying and preventing vendor payment errors. The FSC also enhanced audit recovery efforts over improper/duplicate vendor payments. The FSC routinely reviews VA vendor payments daily to systematically identify, prevent, and recover improper payments made to commercial vendors. Current payment files are matched to identify and, where possible, prevent duplicates prior to payment. Also, payments from prior fiscal years are matched to identify potential duplicate payments for further analysis, assessment and, as appropriate, collection. The FSC staff also reviews vendor payments to identify and collect improper payments resulting from payment processing such as erroneous interest penalties, service charges, and sales taxes. This initiative recovered over \$124,000 during 2005 for reuse by VA entities.

Overall, collections of improper payments and the recovery of unapplied vendor statement credits totaled over \$2.7 million. Improved payment oversight also enabled VA to identify and cancel nearly \$3.5 million in potential improper payments prior to disbursement. Since the FSC audit recovery effort's inception in 2001, VA has recovered \$13.2 million in improper payments and prevented the improper payment of another \$13.2 million.

During 2005 the Department aggressively used the governmentwide commercial purchase card program. Over 3.7 million purchase card transactions were processed, representing over \$2 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA \$35 million in credit card rebates--compared to \$30 million during the same period in 2004. These rebates are returned to VA entities for use in veterans programs. The increase in rebates can be mostly attributed to the increase in basis points VA receives as a result of the re-competed contract with the contract bank.

VA's fee basis credit card program went "live" in September 2003. This program electronically automates Health Care Fee Basis payments, eliminates processing of paper checks, and earns VA additional purchase card rebates. During 2005 the number of Fee Basis purchase card transactions exceeded 96,000 and were valued at \$25 million in payments, earning VA over \$414,000 in additional rebates compared to \$82,000 during 2004.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. During 2005, 126 VA medical centers used the Prime Vendor System to electronically process over 468,000 transactions worth over \$3.7 billion.

VA's Travel Management Centers (TMC) serve veterans and employees who travel frequently. The billings are transmitted electronically from each TMC, and payment is sent daily through the Department of the Treasury's Electronic Certification System. During 2005 the travel management program processed over 100,000 transactions, disbursed payments of over \$19 million and earned over \$274,000 in rebates.

VA's FSC staff continued to provide vendor payment history on the Internet. Currently, the Vendor Inquiry System (VIS) Internet

application stores over 3 years of information on invoices. Once vendors complete an authentication process, they can access a secure Web site to view payment information for their company. Currently there are 16,101 registered vendors who have made over 408,000 requests in 2005 and over 1.1 million requests since VIS's inception in April 2003. The VIS provides FSC vendors an easy-to-use tool for immediate access to their payment information 24 hours a day without having to call and wait for a person to provide payment information. The VIS has also improved customer service efficiency of the FSC staff by handling many routine inquiries and freeing staff to work the more difficult issues for customers.

The FSC also continued to improve the Intranet online invoice certification process that allows invoices to be certified electronically by VA facilities and schedule the invoices for payment. VA's On Line Certification System (OLCS) allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. The FSC continued to expand the certified invoice service throughout VA (including headquarters offices and VHA) in 2005 and implemented OLCS at all facilities as part of the VHA payment centralization initiative. That brought the number of OLCS users to more than 10,000 VA employees.

Improper Payments Information Act of 2002 (Summary of Implementation Efforts for FY 2005 and Agency Plans for FY 2006 through 2008)

Overview

VA reviewed the requirements of the Improper Payment Information Act (IPIA) of 2002 to identify those programs that are susceptible to significant erroneous payments. After completing the review, VA performed risk assessments for all 19 programs, which account for approximately the entire VA budget. Statistical samplings were performed on all required programs to estimate improper payments.

Our review revealed that 13 of the programs had estimated improper payments of less than \$10 million; thus, no report was required for these programs. Dependency and Indemnity Compensation (DIC) is one of the programs previously identified in the former Section 57 of OMB Circular A-11 but is reported here as part of Compensation & Pension. The remaining five programs either had estimated improper payments exceeding \$10 million and/or were programs previously identified in the former Section 57 of OMB Circular A-11. These include the Compensation & Pension, Education, Insurance, Loan Guaranty, and Vocational Rehabilitation & Employment programs. Further details are provided in Part IV of this report.

Accomplishments

VA's Assistant Secretary for Management/Chief Financial Officer (CFO) is the designated senior official responsible for implementing IPIA. The CFO is responsible for establishing policies and procedures to assess VA program risks of improper payments, taking actions to reduce those payments, and reporting the results of those actions to VA management. Managers of all programs identified for review are aware of the importance of the IPIA. All 19 programs identified for review completed the risk assessment during 2005, in accordance with VA's IPIA plan.

VA's recovery targets for all susceptible programs have exceeded their 2004 targeted amounts, as shown in a chart in Part IV, VA Recovery Targets for all Susceptible Programs. Public Law 107-103, enacted in December 2001, prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. VA recently obtained information identifying more than 100,000 individuals that are on federal, state, or local law enforcement fugitive felon lists. These lists have assisted VA in identifying erroneous payments.

Plans to Accomplish

Efforts are still ongoing to rewrite regulations into clear and understandable language, as well as to develop and automate claims processing for the Education program. VA is consolidating the processing of all pension maintenance workload in order to improve the quality and timeliness of the pension processing, as well as to focus training in this area. The goal is to reduce the amount of erroneous payments in all programs. The Vocational Rehabilitation & Employment program continues to move forward in developing and implementing plans to reduce the estimate rate of

improper payments. The Loan Guaranty program will continue to conduct 100 percent post-payment reviews of all Specially Adapted Housing grant payments.

Financial Management Systems Framework

Overview

The Department's strategy, defined about 12 years ago, is based on goals to replace outdated and noncompliant systems with more modern, commercial off-the-shelf (COTS), Joint Financial Managers Improvement Program (JFMIP)-compliant systems based on new technology. This strategy was enhanced to incorporate business process reengineering in the requirements, acquisition, and development and implementation phases of projects.

The Systems Quality Assurance Service, through its financial systems review program (FSRP), provides the CFO with independent review and advisory services designed to add value and improve the acquisition, development, maintenance, and retirement of VA financial systems. The scope of this work is to determine whether the Department's financial systems comply with the FFMIA, as implemented by OMB Circular A-127.

FSRP staff conducts financial systems reviews to determine compliance with OMB Circular A-127, conducts management-directed program activities and system management reviews of project management processes and results, and monitors corrective action to address findings of deficiencies.

In 2005 FSRP staff conducted three reviews under OMB Circular A-127 and two management-directed, limited scope reviews. Management-directed, limited scope reviews were conducted of the Credit Card System and the Veterans Health Information Systems and Technology Architecture (VistA) Accounts Receivable system. The Department is implementing recommendations from these reviews. VA's updated financial systems inventory provides details on all major financial and mixed systems. The major financial system initiatives funded by the Department over the last 13 years to achieve VA's strategic goals have included the following:

- The Financial Management System (FMS), a project to replace VA's 1970's central accounting system. In the FMS initiative, completed in 1995, VA successfully met its stated objectives and implemented FMS as its single, core accounting system based on a certified COTS, JFMIP-compliant system with interfaces to all other VA payment and accounting systems. In the succeeding, post-implementation years, VA completed several studies and determined there were remaining inefficiencies in the overall financial management processes, areas of noncompliance in our mixed systems, and new mission business requirements that could not be supported economically in the current systems. Difficulties were also cited by auditors related to the preparation, processing, and analysis of financial information in the preparation of VA's consolidated financial statements. Efforts are ongoing to address this weakness.
- CoreFLS was a project to replace VA's financial management system (FMS), the Integrated Funds distribution, Control point activity, Accounting and Procurement (IFCAP) system, and other financial and logistics systems interfacing to FMS with a fully integrated system comprised of commercial, off-the-shelf software. Although piloted at three sites during 2004, pilot activities were phased out. Subsequent to the pilot phase-out, a board of directors chaired by VA's Chief Information Officer examined the results of the CoreFLS pilot program and presented recommendations to the Secretary on the program's future. Based upon this evaluation, which highlighted the criticality of addressing fundamental organizational and business standardization issues prior to a system implementation, the CoreFLS project was terminated. VA has now initiated a 4-year remediation program to eliminate the existing material weakness—Lack of an Integrated Financial Management System. This new program will be referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)—the goal of which is to correct financial and logistics deficiencies throughout the Department.
- VA is participating in the federal-wide plan to consolidate federal payroll services and processes, which is included in the President's Management Agenda for Improving Internal Efficiencies and

Effectiveness. VA has been aligned with the Defense Finance and Accounting Service (DFAS) as its future payroll provider. Efforts are currently underway to complete required system changes to VA's legacy systems and build the interfaces necessary to migrate VA payroll services to DFAS.

VA's financial system recent accomplishments as well as plans for the next 5 years are detailed as follows.

Financial Management System (FMS) Accomplishments and Plans

VA continued production support and maintenance of FMS during 2005. Due to the suspension of the CoreFLS project, VA will need to continue operation of FMS as the core accounting system until a suitable replacement is available. VA is currently addressing this need and is confronting this with a two-fold approach: an effort to improve FMS financial reporting and an effort to improve FMS data reconciliation.

VA has selected a "business intelligence" tool that will enable standardized and streamlined financial reporting to meet OMB and Treasury requirements. Once configured, this tool will produce VA's consolidated financial statements. The planning and design of this solution was a significant accomplishment in 2005. VA is also planning an effort to enhance the reconciliation of FMS interface data with each of the material interfaces. This effort is still in the conceptual design phase, but will ultimately allow for greater data reconciliation efforts to further ensure the integrity of FMS data. These efforts represent a proactive approach which will put VA in a better position to successfully transition to a new system in the future.

CoreFLS Accomplishments and Plans

A board of directors chaired by VA's Chief Information Officer examined the results of the CoreFLS pilot program and presented recommendations to the Secretary on the program's future. Activities completed to support the recommendation include assessing lessons learned, analysis of "As Is" and development of "To Be" business processes, identification

of VA-wide standardization opportunities, and product analysis and evaluation. Based upon the need to address fundamental organizational and business standardization issues, it was determined that a system implementation was premature and the CoreFLS project was terminated. VA has now initiated a 4-year remediation program, in concert with the FM Line of Business (FMLOB) objectives, to eliminate the existing material weakness—Lack of an Integrated Financial Management System. This new program will be referred to as VA's Financial and Logistics Integrated Technology Enterprise (FLITE)—the goal of which is to correct financial and logistics deficiencies throughout the Department. VA efforts will support the FMLOB goals for efficiency and focus on eliminating the material weakness.

PAID Accomplishments and Plans

As part of VA's strategy to ensure the legacy payroll and HR systems (i.e., PAID and related systems) will still be useable for the next 5 to 10 years, VA has completed the following activities:

- Following the successful implementation of the Office of Personnel Management's Employee Express (EEX) system in 2003, VA automated interfaces from EEX to PAID. This has allowed VHA to reassign staff at the VA Health Revenue Center (HRC) from duties relating to employee self-service to cost recovery and revenue generation tasks. In May 2003 the HRC had 88 FTE supporting employee self-service, and only 8 FTE have been supporting EEX since 2004. The recurring costs for VA's previous employee self-service system were approximately \$3.8 million in 2003; VA's costs for EEX were \$775,000 in 2004, and \$948,927 in 2005, an average annual savings of \$2.938 million.
- The PAID system received final accreditation by the VA Chief Information Officer on January 13, 2004. This accreditation provides full authorization for VA to operate PAID until December 10, 2006, unless a significant change warrants an earlier recertification.
- VA made substantial progress in completing the Web-enabling of its HR system user interface. Nationwide roll-out of the Web interface was completed in December 2004. Screens for non-users were Web-enabled in September 2005 and will be fully deployed by December 2005.
- Seventy deferred requirements were successfully completed for PAID in 2004. The remaining nine deferred requirements have been incorporated into the e-Payroll initiative and development timeline.

Extending the Service Life Initiatives

Commensurate with work on the e-Payroll initiative, other initiatives were begun in an attempt to extend the service life of PAID and related systems for the next 5 to 10 years. The status of these initiatives is as follows:

- Web-Reports (design, development, and implementation of a Web-based reporting tool for extraction of data from PAID). This initiative will use a relational database to create reports. It will also acquire and deploy Web-based reports and tools to improve human resources and payroll reporting. A pilot was completed in March 2004. Because of the need to focus resources on the e-Payroll initiative, further development on the Web-Reports has been deferred indefinitely.
- Web-Time & Attendance (development of a Web-based time and attendance (T&A) system for VA employees). This initiative has been realigned to occur as part of the e-Payroll initiative.
- Modernize the OLDE Infrastructure (convert the OLDE database to a relational database and use this database for the Web-Reports and Web-T&A initiatives). No further work is being done on this initiative and it has been removed from further consideration.

e-Payroll Accomplishments and Plans

Numerous meetings were held with DFAS and VA to identify differences in policies, business processes, and system functionality for payroll, benefits, debts, accounting, and human resources. There were over 700 follow-up action items generated and all were resolved. There were also 247 differences identified between VA and DFAS policies, business processes, and system functionality; VA and DFAS reached agreement on resolutions for all 247 differences. Several of the system changes DFAS will be making to fulfill VA requirements will be made available for use by other agencies serviced by DFAS.

VA provided DFAS with a roll-out plan for converting approximately 300 locations. This plan groups the locations into one of five conversions and includes dates for beginning each of the five conversions. VA and DFAS have also defined high-level roles and responsibilities for each agency, as well as performance measures that will be used to determine whether to proceed with converting a station or group of stations. VA has also begun work to modify VA's PAID Time and Attendance system and to build interfaces required by DFAS for payroll processing. Subsequent to conversion, VA's PAID system will continue to be used for HR processes until VA and other agencies migrate to the integrated HR and payroll system that is expected to be available under the eHR Line of Business.

e-Travel Accomplishments and Plans

Use of VA's existing travel systems continued in 2005, including PCTravel, Gelco, and Zegato. VA focused efforts on evaluation and selection of one of three GSA eTS vendors available on the GSA master contract. With substantial participation by VA's three administrations in oversight and source selection, VA conducted a thorough evaluation of each offering, including hands-on testing of functionality, system performance, and comparative pricing. In January 2005, VA awarded a task order to EDS from GSA's master contract to provide e-Travel Services (eTS) to VA. EDS partnered with Zegato Solutions for its eTS offering of FedTraveler.com. VA's task order has a 9-year life cycle (inclusive of options). VA established an eTS Migration Team to ensure the necessary resources and completion of tasks for a successful implementation of FedTraveler.com. The team participated in a February kickoff meeting with EDS and GSA, completed testing of FedTraveler.com, and submitted a gap analysis to EDS. EDS agreed to develop items identified in the gap analysis. VA conducted partial testing of gap items and the accounting interface. VA also plans a load test to ensure FedTraveler.com can support VA requirements and has awarded a task order to STG, Inc. to conduct the independent load test. VA also established monthly high-level meetings with EDS to review project status. Upon completion of software development and development of new architecture by EDS, VA will complete testing of gap items and the accounting interface. Upon acceptance of the gap items and accounting interface and successful completion of the load test, VA plans to proceed with implementation in 2006 and 2007.

Other Systems Accomplishments and Plans

Electronic Commerce (EC)/Electronic Data Interchange (EDI). EC/EDI uses commercially available, off-the-shelf software and national standards to move mission-critical information between VA and each of its trading partners—which includes vendors, mortgage service providers, and health care entities. EC/EDI also provides for internal exchange of information among VA application systems. Electronic data transfers enable program offices to restructure their work processes, take advantage of the accuracy and timeliness of electronic data, and concentrate on service objectives. To leverage the EDI translation capabilities of the newer generation of products, the FSC will implement a server-based translator system to utilize the Internet as another medium for business transactions. Once implemented, small businesses will have the capability of low-volume transactions without incurring prohibitive costs.

VA's Financial Services Center (FSC) provides EDI services to process VHA Medical Care Cost Recovery (MCCR) health care billings. The FSC is also supporting VHA initiatives such as electronic Insurance Identification and Verification (e-IIV), electronic Pharmacy (e-Pharmacy), electronic Medicare Remittance Advice (e-MRA), and the MCCR lockbox initiative for recording receipt of payments for third-party medical claims. Additionally, the FSC provides EDI services to assist the Veterans Canteen Service in receiving and processing invoices.

The FSC will continue to support VA's efforts to increase cost savings and program efficiencies through the expansion of electronic data transfers in VA applications. The FSC will also continue to support VHA's efforts to comply with EC/EDI mandates identified in the Health Insurance Portability and Accountability Act (HIPAA) of 1996. The FSC continues to use the latest versions of software to electronically ensure the validity of data with regard to HIPAA compliance.

In our efforts to provide VHA with e-Claims reports, the FSC has created a portal for management reports. This portal allows managers to access up-to-date statistics of their data when they need the information. The portal will continue to be updated to include new reports as requested.

In addition to VHA, the FSC provides EC services to VA's Denver Distribution Center for invoices and payment vouchers. Commercial invoices, FMS payments, and the subsistence prime vendor program services are also

provided to VA nationwide. Furthermore, VBA benefits from FSC EC services in the FSC's handling of loan processing, identifying the status of loan defaults, and processing of loan guaranty certificates.

Major EC/EDI Initiatives Planned

Tasks	Target Dates
Support MCCR lockbox receipt of payments.	FY 2006 – FY 2010
Support (by providing both development and production support services) VHA's HIPAA compliance efforts.	FY 2006 – FY 2010
Support EDI production projects on a continuing basis.	FY 2006 – FY 2010
Support reports portal.	FY 2006 – FY 2010
Implement the Trusted Link Enterprise translation software.	FY 2006

On Line Certification System (payment certification). The FSC developed the On Line Certification System (OLCS) in 2000. The OLCS application, based on input and suggestions from FSC customers, provides a simple, effective method for certifying officials to view and certify invoices without having to manually route paper invoices. Under OLCS, vendors send invoices directly to the FSC. Within 24 hours, an invoice is scanned into the FSC's document management system (DMS), given a document locator number, and indexed with the information required to process the invoice. The DMS is the FSC's optical imaging system used to route and process all documents in a paperless form. Once scanned, the invoice becomes an electronic image that can be stored for the remainder of its useful life. The OLCS allows officials in the field to have access to invoices requiring certification. When invoices are received at the FSC, the system sends an e-mail notification to certifying officials and provides information on how to access the invoices. This application received an *e-GOV 2000 Trailblazer* award. The OLCS was further improved with system enhancements to allow VA activities to process rejected invoices online and by adding functionality to permit review of invoices by fund control personnel at the

VA activity. Over 10,000 employees currently use the OLCS within VA.

The OLCS was an essential enabler in creating the capability to centralize VHA certified invoice payment processing to the FSC. Certified invoices sent to the FSC for processing are managed by certifying officials through the OLCS and then paid by the FSC. As a result, VA has realized a tremendous increase in the efficiency of the payment process resulting in significant savings in resources. At the same time, the OLCS and centralization has substantially reduced interest penalties and increased discounts earned.

The FSC's certified payments process represents a full life cycle of services performed from the time the FSC receives an invoice until the Department of the Treasury (Treasury) renders proper payment. The services include processing cancelled checks, check tracers, vendor re-certifications, rejects and adjustments, inquiries, vendor reclaims, bills of collection, Treasury offsets, and tax levies. The FSC provides these services in compliance with applicable VA regulations and directives and the Prompt Payment Act.

OLCS Programming Enhancement Planned

Task	Target Date
Implement programming enhancements based on customer feedback.	Ongoing

Document Management System (DMS). The FSC implemented an imaging system, referred to as DMS, in May 1994. DMS allows the FSC to provide a paperless work environment, reduce physical storage needs, and process high volumes of documents. Documents are stored both magnetically and on optical platters and can be retrieved in seconds. Backups are stored offsite.

Initially, DMS was used to process commercial payments and inquiries. Subsequently, the FSC's use of DMS has been expanded to include other functions such as vendorizing requests, federal accounts, preparation of the SF-224 report,

storing grant and schedule documents for other government agency (OGA) customers, and OLCS. Additionally, the DMS has shown potential in storing and retrieving finance records, payroll and personnel folder data, contract files, and legal documents.

VA's Franchise Fund Board of Directors approved the FSC's 2005 business plan, which further refined the FSC's plan to offer DMS as a product line. The FSC currently provides storage and retrieval services via the Intranet to VA customers and provides the same types of services to OGAs via the Internet.

Planned DMS Expansion and Support

Tasks	Target Dates
Add new OGA and VA customers.	FY 2006 FY 2010
Provide program support for DMS.	FY 2006 FY 2010